VISION 2000 EXPLORATION LTD.

1998 ANNUAL REPORT

CORPORATE PROFILE

Vision 2000 Exploration Ltd. is a public company engaged in oil and gas exploration and production in Alberta. Vision 2000 was incorporated as a private company in 1991 under the name Conklin Energy Company Inc. The company established a successful track record acquiring quality, long life oil and gas reserves along with significant undeveloped land holdings in Alberta. The Company went public in October of 1997 as Vision 2000 Exploration Ltd. During fiscal 1998 the Company's revenues, cash flow and reserves all increased significantly.

The common shares of Vision 2000 currently trade on the Alberta Stock Exchange under the symbol VNN.A.

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of Vision 2000 Exploration Ltd. will be held on September 25, 1998 at 11:00 a.m. in the Main Board Room of Macleod Dixon, Barristers & Solicitors, 37th Floor, 400 - 3rd. Avenue S.W., Calgary, Alberta. All shareholders are invited to attend.

GLOSSARY

boe	Barrels of oil equivalent (10 mcf of gas equals 1 bbl of oil)
mboe	Thousands of barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bbl	Barrels of oil or natural gas liquids
bopd	Barrels of oil per day
mcf	Thousands of cubic feet
mmcf	Millions of cubic feet
/d	Per day
mstb	Thousands of stock tank barrels
bcf	Billions of cubic feet
NGLs	Natural gas liquids

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HIGHLIGHTS

	1998	1997	% Change
FINANCIAL			
Oil & gas revenues	$ 260,250	$ 165,150	58%
Cash flow from operations (loss)	49,952	(1,013)	5,031%
Per share	0.01	(0.00)	0%
Net income (loss)	(14,221)	121,537	-112%
Per share	(0.00)	0.05	-100%
Total assets	2,188,637	576,094	280%
Long term debt	0.00	25,000	-100%
Shareholders' equity	$ 2,050,273	$ 509,963	302%
Common shares outstanding (weighted average)	4,149,566	2,342,808	77%
Present value of reserves at March 31, 1998 (discounted at 15% before taxes)	$ 1,410,000	$ 666,000	112%
OPERATING			
Capital expenditures	$ 689,030	$ 471,844	46%
Land holdings (net acres)	5,859	1,819	222%
Crude oil production			
Thousands of barrels	4.9	1.5	230%
Average barrels per day	13.4	4.0	230%
Average selling price ($Cdn per barrel)	24.97	22.19	13%
Natural gas production			
Million cubic feet	76.42	73.10	5%
Average thousand cubic feet per day	209	200	5%
Average selling price ($Cdn per thousand cubic feet)	1.80	1.82	-2%
Average daily production (boe)	34.4	24.0	43%
Proven and probable reserves			
Crude oil (bbls)	37,300	23,300	60%
Natural gas (mmcf)	1,714	713	140%
Barrels of oil equivalent (boe) - natural gas @ 10:1	208,700	94,600	121%
Netback ($/boe)	13.82	13.63	1%

MESSAGE TO SHAREHOLDERS

The fiscal year ending March 31, 1998 marked a major milestone in the growth and development of the Company as Vision 2000 made the transition from a private to a public company. The Company completed its Initial Public Offering on October 28, 1997 with the issuance of 3,397,300 shares and an equal number of share purchase warrants for gross proceeds of $1,698,650. The Company completed two major acquisitions in central and southern Alberta adding significantly to its production and undeveloped land base and participated in an active exploration program targeting natural gas at both Pine Creek and Knappen.

HIGHLIGHTS FOR FISCAL 1998

- Revenues increased 58% from $165,150 to $260,250.
- Cash flow increased from a loss of $1,013 to a gain of $49,952.
- Proven and probable reserves increased 121% from 95 mboe to 209 mboe.
- Undeveloped land holdings increased 906% from 356 to 3,582 net acres.
- Capital expenditures increased 46% from $471,844 to $689,030.
- Production increased 43% from 24 boe/d to 34 boe/d.

Subsequent to the fiscal year end Vision 2000 has:

- Sold its non-producing interests at Pine Creek for $750,000 realizing a gain from the disposition of approximately $400,000.

STRATEGY FOR GROWTH

Vision 2000 has a strategy for growth that was proven successful during fiscal 1998 and which the Company will continue to follow in the year ahead.

- Focus operations in core areas - currently in central and southern Alberta.
- Focus on natural gas and light oil.
- Acquisitions targeting producing properties with development potential.
- Assume operatorship and high working interests where possible.
- Drill internally generated prospects utilizing modern geophysical technology.

VISION 2000 COMPLETES MAJOR ACQUISITIONS

During fiscal 1998 Vision 2000 completed two major acquisitions targeting natural gas and light oil reserves along with significant undeveloped land. The first acquisition completed in May of 1997 for the purchase price of $303,000 was a package of eight properties located in central Alberta. The most significant properties were Judy Creek, Pine Creek and Niton. With this acquisition, Vision 2000 acquired proven light oil reserves of 33,000 bbls and proven gas reserves of 218 mmcf along with undeveloped land of 21,600 gross acres (2,687 net acres) at a price of $5.53 per boe of reserves. The production consisted of 72 mcf/d of gas and 11 bbls/d of oil.

The second acquisition completed in March of 1998, for the purchase price of $50,000, enabled the Company to increase its working interest in the core Knappen area of southern Alberta. Vision 2000 acquired proven undeveloped reserves of 798 mmcf of gas and undeveloped land of 1,293 net acres.

These two acquisitions combined added 126 mboe of proven and probable reserves and increased the Company's undeveloped land from 356 to 3,182 net acres.

OPERATIONS REVIEW

The Company's operations for fiscal 1998 were concentrated at Pine Creek in central Alberta, and at Knappen in southern Alberta.

At Pine Creek, under separate farmout agreements, two deep wells were drilled on Company lands in which Vision 2000 retained a 7.5% and a 3.75% gross overriding royalty. Both wells were cased and are currently on tight hole status. A third well in which Vision 2000 participated as to its 7% working interest was suspended prior to reaching the projected total depth due to mechanical problems.

At Knappen, Vision 2000 completed the 8-28 well which flowed gas at non-economic rates due to low permeability of the sandstone reservoir. Subsequent to fiscal year end, a step-out well drilled at 9-28 penetrated excellent reservoir quality sands, however, the well encountered a water line higher than anticipated and was abandoned. The Company completed a 25 kilometre, 2D seismic program during the year and also purchased 35 kilometres of trade data which identified additional drilling opportunities on Vision 2000's acreage. The Company also acquired, subsequent to year end, operatorship of the suspended 16-29 gas well which has been assigned proven reserves of 1,038 mmcf of gas by Sproule Associates Limited. The Company plans to place this well on production as soon as compression can be installed.

SALE OF PINE CREEK PROPERTY

The company's Pine Creek acreage was acquired pursuant to the central Alberta acquisition completed in May of 1997, for no monetary value, as these leases were all under imminent expiry. Vision 2000, recognizing the potential of the area, was instrumental in securing a continuation on this acreage. Subsequently, the Company invested a net $170,000 in land sale activity along with partners. Due to the high drilling costs (approximately $1,000,000 per well) and the high risk associated with the exploration play, Vision 2000 elected to farmout its interest. Although two wells have currently been drilled and cased, the play still remains very risky with additional drilling required to establish whether there are economic reserves .

The drilling costs during this next phase would be substantial for a company the size of Vision 2000 and still carry significant risk. Vision 2000, recognizing a window of opportunity, negotiated a sale of the property for $750,000 realizing a book gain on the disposition of approximately $400,000. The Company is now in a favorable position with working capital of approximately $1,250,000 to complete a major property acquisition, where drilling costs and risk are more manageable, and which Vision 2000 can operate and develop.

OBJECTIVES FOR FISCAL 1999

The focus for the next fiscal year will be to accelerate the Company's production and cash flow. Vision 2000 will work diligently to meet these objectives.

- Complete a major acquisition in the 200 boepd range.
- Tie-in Knappen 16-29 with net 528 mcf/d production.
- Further development drilling in core areas.
- Exit fiscal 1999 with 500 boepd production.

OUTLOOK FOR FISCAL 1999

The Company's prudent management of assets and risk has positioned Vision 2000 favorably in the current environment of low oil prices and declining profits by the majority of companies. Vision 2000 is well positioned with working capital of $1,250,000 and no debt to capitalize on the buying opportunity that exists today to realize a major acquisition in the 200 boe/d range. The Company will focus its efforts on acquiring an operated producing property, preferably natural gas, which has development potential. Vision 2000 with its experienced technical team of consultants will pursue low risk drilling opportunities to add value to the Company's core assets.

This current environment of low oil prices and declining industry profits in general has had a negative impact on stock prices as a whole for the oil and gas sector. The market, however, will take notice of junior companies that are focused towards natural gas and are successfully growing both their production and cash flow.

Vision 2000 recognizes, however, that as a Company we cannot rely solely on success in the ongoing operations of the Company to translate into strength in the marketplace. As a Company, Vision 2000 is committed to be at the forefront in terms of presenting the Company's story to the investing public to insure the true value of the Company's assets is being reflected in the market to the benefit of all the shareholders of Vision 2000.

ACKNOWLEDGEMENTS

Going public in fiscal 1998 necessitated some changes be made to the Company's Board of Directors to bring into Vision 2000 key individuals with the experience and expertise to meet the challenges of a public run company. I wish to welcome, Don Copeland, John Gareau and Brian Parsons as new Board members joining Paul Seiferling and myself. The contribution of Janice Conklin who helped found the Company and served as a director prior to the Company going public is hereby acknowledged.

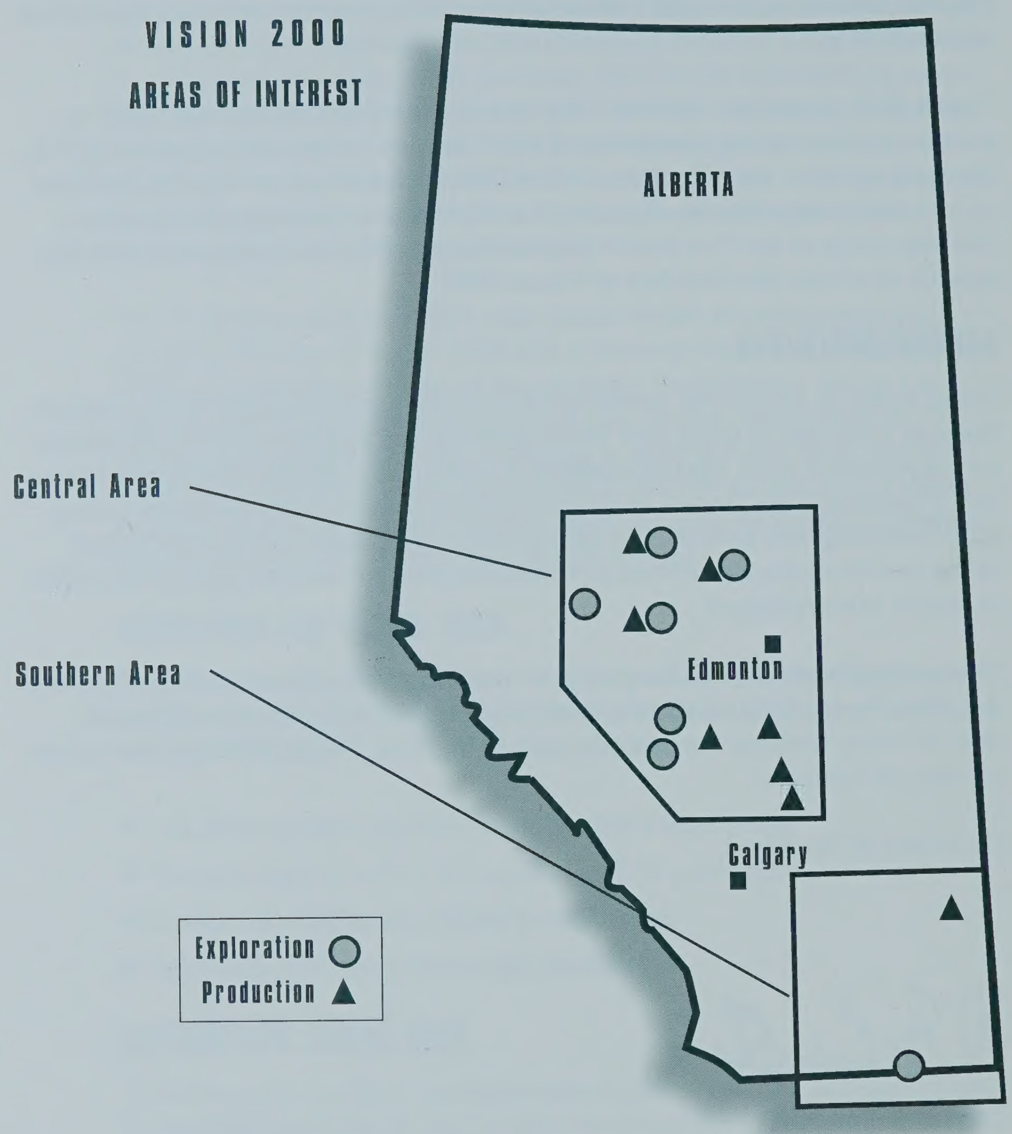
The accomplishments of this past year would not have been possible without a dedicated consulting staff, who performed each of their roles exceptionally well, working towards the common goal of building Vision 2000 into a premiere oil and gas company.

On behalf of the Board

D G Conklin

David G. Conklin
President & Chief Executive Officer
August 10, 1998
Calgary, Alberta

REVIEW OF OPERATIONS



HIGHLIGHTS

- Central core area expanded with 19,203 gross and 2,166 net acres added.
- Southern core area expanded with 1,280 gross and 1,874 net acres added.
- Exploration programs launched at Pine Creek and Knappen.
- Proven and probable reserves of 126 mboe added with key acquisitions.
- Current reserve base 82% gas and 18% oil.

EXPLORATION & LAND

Vision 2000's land position and prospect inventory increased significantly during fiscal 1998 with two major acquisitions completed. In the Company's central Alberta focus area, properties with undeveloped land were added at Judy Creek, Pine Creek, Niton, Gilby, Willesden Green, Ferrier, Vega and Garrington. This acquisition increased the Company's undeveloped land by 19,203 gross acres (2,166 net acres). In the Company's southern Alberta focus area, the major acquisition at Knappen increased the Company's undeveloped land position by 1,280 gross acres (1,293 net acres).

Having completed the Initial Public Offering mid-way through fiscal 1998, Vision 2000's exploration effort was concentrated at Pine Creek in central Alberta. Vision 2000, with a 50% interest in two key sections, farmed out its interest to third parties who at no cost to Vision 2000 drilled two deep exploratory wells in which the company retained a 7.5% and a 3.75% gross overriding royalty respectively. Both wells are currently standing cased and due to the competitive nature of the area are on tight-hole status. Vision 2000, having access to all the well information, and being cognizant of the costs of continuing to participate in this high risk exploration play, which had the potential to consume all of the company's remaining working capital, chose to sell its interest for $750,000 cash.

In the Company's southern Alberta focus area at Knappen, Vision 2000 operated a 25 kilometre seismic survey to further evaluate its land holdings. Subsequent to year-end, an exploration well was drilled at 9-28, a step-out from a previous well which had an encouraging gas show. The new well encountered an excellent reservoir quality sand, which unfortunately was wet. With the recent acquisition at Knappen, the Company currently operates five sections of land with interests ranging from 81.25 to 100%. The Company's lands are well positioned both structurally, stratigraphically and in close proximity to pipelines for further drilling opportunities.

The Company's drilling focus in fiscal 1998 was on gas, which will continue through fiscal 1999. In addition to pursuing exploration, the Company is actively seeking a major property acquisition which will add production and cash flow along with development potential.

LAND HOLDINGS

Acres

	Undeveloped		Developed		Total	
	Gross	Net	Gross	Net	Gross	Net
1998	26,382	3,582	12,796	2,277	39,178	5,859
1997	9,900	356	8,796	1,463	18,695	1,819

PROPERTY REVIEW

JUDY CREEK

Vision 2000 holds a 10 % working interest in 1,920 gross acres (192 net acres) comprising 4 producing oil wells plus a royalty interest in 1,120 gross acres containing one gas well. Production comes from the Viking "A" oil pool, which also produces solution gas. The Company holds a 5.12 % interest in a gas compression and dehydration facility that processes the solution gas. The area is currently producing at rates of 95 bopd/d of oil (9.5 bopd/d net) and 685 mcf/d of gas (68.5 mcf/d net).

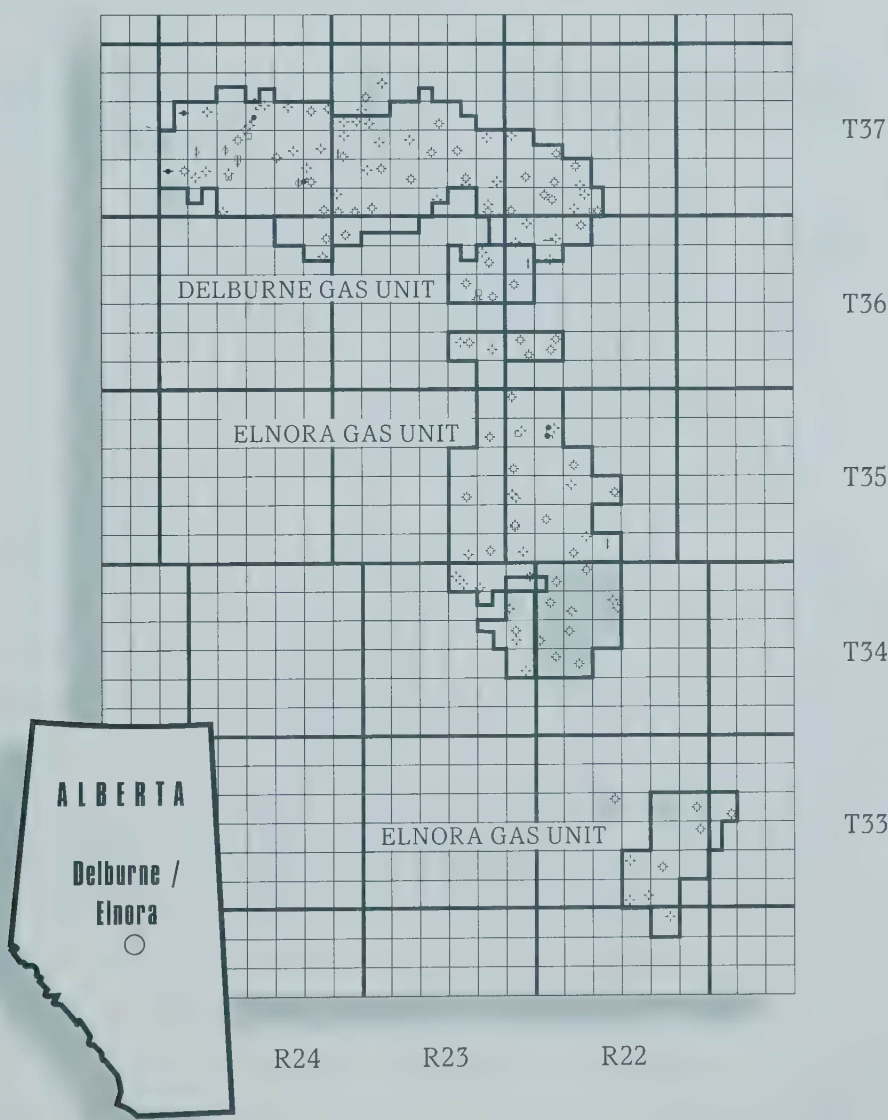
During fiscal 1998 Vision 2000 participated with partners in a re-entry of an abandoned oilwell in the Viking "A" oil pool to test production potential following stimulation. The well responded with an increased production rate from 4.5 bopd (the abandonment rate) to 19 bopd. The Company will continue to monitor the performance of the well and has indentified other workover candidates and development locations.

DELBURNE / ELNORA

Vision 2000 holds a 1.2% working interest in the Delburne Gas Unit as well as a 0.65% interest in the Delburne Gas Plant. The Delburne Unit consists of approximately 60 sections of land unitized in the Viking, Belly River, Glauconite and Basal Quartz formations. The Unit production comes from 13 wells producing 3,200 Mcf/d of gas (38 Mcf/d net) and 54 Bbls/d of natural gas liquids (0.7 Bbls/d net).

At Elnora, the Company holds a 2.8125% gross overriding royalty in 14.5 sections of land, most of which is located within the Elnora Gas Unit. The Elnora property is currently producing from 27 wells at approximately 6,200 mcf/d of gas (42 mcf/d net) and 123 bopd/d of natural gas liquids (0.8 bopd/d net).

The production from this area is characterized by long-life reserves, which offers consistent cash flow for the Company. The Company is reviewing acquisition opportunities in this area, which Vision 2000 would operate.



KNAPPEN

Vision 2000, with its recent acquisition in the Knappen area, now holds interests in 3,840 gross acres (3,159 net acres). Vision 2000 operates five sections of land with interests ranging from 81.25% to 100%. The Company lands are in close proximity to a major pipeline providing tie-in opportunities for Vision 2000's gas. The Company now operates the suspended gas well at 16-29 which has proven reserves of 1,278 mmcf (1,038 mmcf net) and which has deliverability of 650 mcf/d (528 mcf/d net). This well requires the installation of a compressor station and associated facilities, which the Company plans to install with the participation of an industry partner.

The Company completed a detailed 2D seismic survey during December, 1997 which resulted in the mapping of a number of prospects in the Glauconite channel sands as well as the regional Sunburst sands. The Company's exploration well at 9-28 confirmed the presence of excellent reservoir quality sands. Vision 2000 proposes further development drilling with an industry partner in fiscal 1999.

PRODUCTION

The company's average production increased from 24 boepd in fiscal 1997 to 34 boepd in fiscal 1998 consisting of 61% gas and 39% oil. The increase in production came from the central Alberta acquisition completed in May of 1997, which added 18 boepd to the 1997 exit production rate.

The Company's central production comes from seven properties in the Company's central Alberta core area, namely: Judy Creek, Niton, Gilby, Vega, Delburne, Elnora and Chigwell. The Company's interests, though currently small, should provide an excellent springboard for Vision 2000 to expand operations in this key area.

The Company's southern Alberta production currently comes from the Suffield property where the Company holds a 7.5% interest in two producing Bow Island gas wells with long life reserves. Production from the Knappen 16-29 well, which Vision 2000 recently became operator, is estimated at 650 mcf/d gross (528 mcf/d net), once compression is installed and the well placed back on production.

RESERVE COMPARISON - TOTAL PROVED PLUS PROBABLE RESERVES (BEFORE ROYALTIES)

	April 1, 1998			April 1, 1997		
	Oil	Gas	BOE	Oil	Gas	BOE
Area	(mstb)	(mmcf)	(mstb)	(mstb)	(mmcf)	(mstb)
Chigwell	4.1	0.0	4.1	17.8	0.0	17.8
Delburne	2.4	163.6	18.8	4.3	202.0	24.5
Elnora	0.9	48.0	5.7	1.2	103.0	11.5
Gilby	1.3	1.0	1.4	0.0	0.0	0.0
Judy Creek	25.1	158.6	41.0	0.0	0.0	0.0
Knappen	0.0	1,038.4	103.8	0.0	240.0	24.0
Niton	1.7	8.4	2.5	0.0	0.0	0.0
Pine Creek	1.7	71.2	8.8	0.0	0.0	0.0
Suffield	0.0	207.7	20.8	0.0	156.0	15.6
Vega	0.0	9.1	0.9	0.0	0.0	0.0
Total, Proven	**37.2**	**1,706.0**	**207.8**	**23.3**	**701.0**	**93.4**
Probable	0.1	8.2	0.9	0.0	12.0	12.0
Total Proven Plus Probable	**37.3**	**1,714.2**	**208.7**	**23.3**	**713.0**	**94.6**

The Company's proven and probable oil and natural gas reserves were evaluated by independent engineering consultants, Sproule Associates Limited, as of April 1, 1998.

RESERVES VALUE

Estimated Present Value of Future Net Revenue before Income Taxes (1)

($ thousands)	Discount Factor 0%	10%	15%
Proven Developed, Producing	1,441	838	702
Proven Developed, Non-Producing	1,386	692	535
Proven Undeveloped	263	192	169
Total Proven	**3,090**	**1,722**	**1,406**
Probable	23	7	4
Total Proven plus Probable	**3,113**	**1,729**	**1,410**

(1) Probable values have been reduced by 50 percent to account for risk.

PRICE FORECAST

The estimate of future net production revenues is based upon the following price forecast utilized in the Sproule Associates Limited report dated April 1, 1998.

Year	Crude Oil WTI Cushing Oklahoma ($US/bbl)	Crude Oil Edmonton Par Price ($/bbl)	Natural Gas Alberta Spot Price ($/mcf)
1998	18.00	24.45	1.68
1999	19.38	25.74	1.87
2000	20.81	27.31	1.96
2001	21.22	27.87	2.04
2002	21.65	28.44	2.12
Thereafter	+2%	+2%	+3% (approx.)

The present value of future net revenue from reserves, before income taxes and using a discount factor of 15 percent, is $1,410,000. This represents a 112% increase from $666,000 reported a year ago.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion is presented in conjunction with the financial statements and accompanying notes.

OIL AND GAS REVENUES

Oil and gas revenue, before royalties, for the year ended March 31, 1998 was $260,250 compared to $165,150 for the year ending March 31, 1997, a 58% increase. This was primarily due to the central Alberta acquisition completed in May, 1998 which added 6,292 boe of production.

ROYALTIES

Total royalties, net of Alberta Royalty Tax Credit ("ARTC"), were $24,804 ($1.98 per boe) for the year ended March 31, 1998 compared to $17,508 ($1.99 per boe) for the year ended March 31, 1997. Fiscal 1997 royalties included $11,669 of prior years' crown royalty adjustments invoiced and collected in fiscal 1997.

OPERATING EXPENSES

Operating expenses in fiscal 1998 were $62,118 ($4.95 per boe) compared to $28,253 ($3.22 per boe) in fiscal 1997. This increase is mainly due to the acquisition of significant facility interests at Judy Creek and Niton.

NETBACKS

Netbacks for the year ended March 31, 1998 were $13.82 per boe compared to $13.63 per boe for March 31, 1997.

(per boe)	Year Ended March 31 1998	Year Ended March 31 1997
Gross production revenue	$ 20.75	$ 18.84
Less:Royalties (net of ARTC and prior years' adjustments)	1.98	1.99
Production expenses	4.95	3.22
Netback	$ 13.82	$ 13.63

DEPLETION AND DEPRECIATION

Depletion and depreciation was $46,975 for the year ended March 31, 1998, which represents a provision of $3.75 per boe of production. For the year ended March 31, 1997, the Company's depletion and depreciation was $25,773 which represents a provision of $2.94 per boe of production.

GENERAL AND ADMINISTRATIVE

General and administrative expense in fiscal 1998 was $148,737 compared to $105,142 in fiscal 1997. This increase was mainly due to administrative staff and office changes that were necessary to facilitate the increased activities of a public company.

EQUITY

On October 28, 1997, the Company closed an offering of 3,397,300 Units raising gross proceeds of $1,698,650. The Units were comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.60 per share until August 8, 1998. The Board of Directors has approved a 12 month extension of the warrants to August 8, 1999 subject to regulatory approval.

Stock options were exercised during the year to acquire 30,000 common shares at $0.25 per share.

CAPITAL EXPENDITURES

Capital expenditures for the year ended March 31, 1998 were $689,030 compared to $471,844 for the year ended March 31, 1997 an increase of 46%.

	Year Ended March 31 1998	Year Ended March 31 1997
Land	$ 82,584	$ 0
Seismic	206,020	120
Drilling & Exploration	74,442	172,485
Facilities & Equipment	12,134	603
Acquisitions	307,770	298,000
Corporate	6,080	635
Total	$ 689,030	$ 471,844

LIQUIDITY

Vision had working capital of $848,500 at March 31, 1998. Subsequent to the year end the Company sold its interest in Pine Creek for proceeds of $750,000 which has increased its working capital to approximately $1,250,000 at July 31, 1998.

INCOME TAX POOLS

The consolidated income tax pools for the Company as of March 31, 1998 are as follows:

Canadian Exploration Expense	$ 217,409
Canadian Development Expense	78,013
Canadian Oil & Gas Property Expense	590,544
Undepreciated Capital Costs	220,019
Share Issue Expenses	197,067
Total	$ 1,303,052

YEAR 2000 COMPLIANCE

Since Vision 2000 contracts for a majority of its software support from third-party vendors and service companies we are contacting each of them directly to confirm that their products currently or will be Year 2000 compliant. Vision 2000 does not believe that it has any material Year 2000 issues and that it has a relatively low exposure to any problems that may arise. Testing of Year 2000 compliance will be undertaken during fiscal 1999. Anticipated expenditures to handle these issues are not expected to be material.

MANAGEMENT'S REPORT

The financial statements of Vision 2000 Exploration Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of all financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

Collins Barrow, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee includes a majority of independent directors who are not employees of the Company. The Committee reviews the financial content of the Annual Report and reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.

DG Conklin

David G. Conklin
President & Chief Executive Officer

AUDITORS' REPORT

To the Shareholders
Vision 2000 Exploration Ltd.

We have audited the balance sheets of Vision 2000 Exploration Ltd. as at March 31, 1998 and 1997 and the statements of loss and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and 1997 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Alberta
July 9, 1998
(except for note 10 which
is dated July 31, 1998)

BALANCE SHEETS

March 31, 1998 and 1997	1998	1997
ASSETS		
Current assets		
Cash and short-term investments	$912,573	$685
Accounts receivable	58,921	50,107
Due from related party (note 2)	7,500	-
Refundable deposits	-	45,000
	978,994	95,792
Property and equipment (note 3)	1,119,953	475,302
Deferred public offering costs	-	5,000
Future income taxes (note 7)	89,690	-
	$2,188,637	$576,094
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$130,494	$35,857
Long-term debt (note 4)	-	25,000
Provision for future site restoration costs	7,870	5,274
SHAREHOLDERS' EQUITY		
Share capital (note 5)	1,934,387	402,023
Retained earnings	115,886	107,940
	2,050,273	509,963
	$2,188,637	$576,094

Approved by the Board,

D S Cantlin, Director

John M Green, Director

STATEMENTS OF LOSS AND RETAINED EARNINGS

Years Ended March 31, 1998 and 1997	1998	1997
Revenue		
Oil and gas sales	$260,250	$165,150
Less: Royalties	40,928	33,240
	219,322	131,910
Alberta Royalty Tax Credit	16,124	4,063
Interest	20,427	2,494
	255,873	138,467
Expenses		
Production	62,118	28,253
General and administrative	148,737	105,142
Interest	7,239	9,522
Depletion and depreciation	46,975	25,773
	265,069	168,690
Loss before the following	(9,196)	(30,223)
Gain on disposal of property and equipment (note 6)	-	141,897
Income (loss) before income taxes	(9,196)	111,674
Income taxes (recovery) (note 7)	5,025	(9,863)
Net income (loss)	(14,221)	121,537
Retained earnings (deficit), beginning of year	107,940	(13,597)
Adjustment to opening retained earnings for change in accounting policy (note 1[d])	22,167	-
Retained earnings, end of year	$115,886	$107,940
Net income (loss) per share (note 5[f])	$ (0.00)	$ 0.05

STATEMENTS OF CASH FLOW

Years Ended March 31, 1998 and 1997	1998	1997
Operating activities		
Net income (loss)	$(14,221)	$121,537
Add (deduct) items not involving cash		
Depletion and depreciation	46,975	25,773
Gain on disposal of property and equipment (note 6)	-	(141,897)
Income taxes (note 7)	5,025	(7,691)
	37,779	(2,278)
Net change in non-cash working capital balances	12,173	1,265
Cash flow from (used in) operations	49,952	(1,013)
Financing activities		
Advance to related party	(7,500)	-
Repayment of long-term debt, net	(25,000)	(50,000)
Proceeds from issuance of share capital, net	1,459,816	150,000
Deferred public offering costs	5,000	(5,000)
	1,432,316	95,000
Investing activities		
Proceeds on disposal of capital assets	-	375,000
Acquisition of capital assets	(689,030)	(471,844)
Net change in non-cash working capital balances	118,650	5,000
	(570,380)	(91,844)
Cash inflow	911,888	2,143
Cash and short-term investments (bank indebtedness), beginning of year	685	(1,458)
Cash and short-term investments, end of year	$912,573	$685
Cash flow from (used in) operations per share (note 5[f])	$ 0.01	$ (0.00)

NOTES TO FINANCIAL STATEMENTS

March 31, 1998 and 1997

The Company was incorporated under the Alberta Business Corporations Act on March 27, 1991 and became a publicly-traded corporation upon the listing of its shares on the Alberta Stock Exchange on November 3, 1997. The Company's principal business is to acquire, explore for, develop and produce oil and natural gas reserves in Western Canada.

The Company changed its name to Vision 2000 Exploration Ltd. pursuant to Articles of Amendment dated May 15, 1997.

1. Significant accounting policies

(a) Exploration and development costs

The Company follows the full cost method of accounting for exploration and development expenditures, whereby all costs relating to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells together with lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Depletion and depreciation is provided for using the unit-of-production method based on estimated proven oil and gas reserves as determined by independent and Company engineers. For purposes of the calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

Costs subject to depletion under the full cost method also include estimated future removal and site restoration costs. Such costs include production equipment removal and environmental cleanup based upon regulations and economic circumstances at year end. The current provision for future removal and site restoration costs is included in depletion and depreciation expense.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, financing costs, income taxes and future removal and site restoration costs. Costs to acquire significant proved reserves are excluded from the ceiling test for a period of 24 months following acquisition, provided any excess of costs over future net revenues is not considered to represent a permanent impairment in the ultimate recoverable amount.

The amounts recorded for depletion and depreciation of exploration and development costs, the provision for future site restoration and the ceiling test are based on estimated proven reserves, production rates, future oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and changes in such estimates may have a material impact on the financial statements of future periods.

(b) Joint ventures

Substantially all of the exploration and production activities of the Company are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

(c) Depreciation

Office equipment is depreciated at 30% per annum on a declining-balance basis.

(d) Change in accounting policy - future income taxes

During 1998, the Company changed its method of accounting for income taxes from the deferral method to the liability method. This change in accounting policy has been applied on a retroactive basis, effective April 1, 1997, and the cumulative effect on net income or loss of prior periods of $22,167 has been recorded

NOTES TO FINANCIAL STATEMENTS

March 31, 1998 and 1997

as an adjustment to opening retained earnings. Comparative figures have not been restated for this change. This change in accounting policy has also resulted in a $28,680 reduction to share capital related to the cost of income tax deductions renounced to investors in prior periods.

Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

2. Due from related party

During 1998, the Company advanced $7,500 (1997 - $nil) to a former director to assist her to exercise stock options to acquire 30,000 Class A shares at $0.25 per share. The advance bears interest at 6.75% and was repayable on demand. The advance was repaid subsequent to March 31, 1998.

3. Property and equipment

1998	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties including exploration and development thereon	$1,128,918	$127,105	$1,001,813
Lease and well equipment	138,622	27,107	111,515
Office equipment	11,449	4,824	6,625
	$1,278,989	$159,036	$1,119,953

1997	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties including exploration and development thereon	$528,702	$89,398	$439,304
Lease and well equipment	55,888	21,971	33,917
Office equipment	5,369	3,288	2,081
	$589,959	$114,657	$475,302

Unproven properties in the amount of $328,329 (1997 - $169,060) were excluded from costs subject to depletion and depreciation.

Future removal and site restoration costs are estimated in aggregate to be $58,252 (1997 - $34,886), of which $2,596 (1997 - $2,893) has been charged to current earnings.

4. Long-term debt

Long-term debt consists of a revolving demand loan facility, bearing interest at the Royal Bank of Canada's prime rate plus $\frac{3}{4}$ % and secured by a general security agreement, a first fixed charge security on certain oil and gas assets and a $500,000 floating charge debenture covering all assets of the company. The maximum amount available under this facility was $310,000 at March 31, 1998, and is reduced by $20,000 each calendar quarter thereafter. As at March 31, 1998, there was no balance outstanding in respect of this facility.

NOTES TO FINANCIAL STATEMENTS

March 31, 1998 and 1997

5. Share capital

(a) Authorized
Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares
Unlimited number of preferred shares, issuable in series

(b) Issued

Class A Shares	Number	Stated Value
Balance, March 31, 1996	2,125,000	$252,023
Pursuant to offering memorandum (note 5[c])	375,000	150,000
Balance, March 31, 1997	2,500,000	402,023
Effect of change in accounting policy (note 1[d])	-	(28,680)
Income tax costs realized on becoming public corporation (note 7[b])	-	(8,686)
Exercise of stock options	30,000	7,500
Pursuant to public offering (note 5[d])	3,397,300	1,698,650
Balance, March 31, 1998	5,927,300	2,070,807
Share issuance costs, net of income tax benefit of $109,914		(136,420)
		$1,934,387

(c) During 1997, the Company issued 30 units at $5,000 per unit for total proceeds of $150,000 pursuant to an offering memorandum. Each unit consists of 12,500 flow-through Class A shares. In accordance with the terms of the offering and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced for income tax purposes exploration and development expenditures incurred to the holders of the flow-through Class A shares in the amount of $150,000.

(d) During 1998, the Company issued 3,397,300 units at $0.50 per unit for total proceeds of $1,698,650 pursuant to a public offering under an exchange offering prospectus. Each unit consists of one Class A share and one share purchase warrant. Each warrant entitles the holder to purchase one Class A share at a price of $0.60 per share until August 8, 1998. The excercise date for the warrants may be extended to August 8, 1999 (note 10[b]). In addition to a commission of 10% of the gross proceeds, the agent was granted an option to purchase 339,730 units at $0.50 per unit, expiring as to 282,030 units on April 3, 1999 and as to 57,700 units on April 28, 1999.

(e) As at March 31, 1998, 528,000 Class A shares have been reserved for issuance pursuant to stock options issued to officers, directors and consultants:

Number of Shares	Exercise Price Per Share	Expiry Date
145,000	$0.25	November 16, 1998
75,000	0.40	August 25, 2001
308,000	0.45	December 8, 2002
528,000		

NOTES TO FINANCIAL STATEMENTS

March 31, 1998 and 1997

(f) Per share figures

Net income (loss) per share and cash flow from operations per share are calculated based on the weighted average number of Class A shares outstanding during the year of 4,149,566 (1997 - 2,342,808). The exercise of stock options and warrants would not be materially dilutive.

6. Gain on disposal of property and equipment

Effective October 1, 1996, the Company sold certain oil and gas properties. The effect of the sale significantly altered the rate of depletion and depreciation and a gain on disposition was recognized accordingly as follows:

Total consideration received	$375,000
Net book value of Property and Equipment	233,103
Gain on disposal	$141,897

7. Income taxes

(a) Future income taxes as at March 31, 1998 are comprised of the following:

Benefit of available tax deductions in excess of carrying value of property and equipment	$1,759
Benefit of undeducted share issuance costs	87,931
	$89,690

(b) Income tax expense differs from that which would be expected from applying the effective Canadian combined federal and provincial income tax rate of 44.62% (1997 - 19.12%) to the income before income taxes as follows:

	1998	1997
Expected income tax expense (recovery)	$(4,103)	$21,352
Increase (decrease) in income taxes resulting from:		
Depletion of assets with no tax base	-	2,515
Non-deductible Crown charges, net of Alberta Royalty Tax Credit	13,123	5,593
Resource allowance	(4,091)	(1,233)
Benefit of previously unrecognized tax deductions	-	(34,096)
Other	96	(3,994)
Income tax expense (recovery)	$5,025	$(9,863)

The provision for income taxes is comprised of the following:

	1998	1997
Current income taxes	$21,983	$(2,172)
Future (1997 - deferred) income taxes recovered	(16,958)	(7,691)
	$5,025	$(9,863)

NOTES TO FINANCIAL STATEMENTS

March 31, 1998 and 1997

The liability for 1998 current income taxes has been eliminated by the application of share issuance cost deductions.

Upon becoming a public corporation during 1998, the Company realized a cost of $8,686 as a result of the increased tax rate applied to its future tax liabilities. This cost has been charged to share capital.

(c) The Company has the following unused tax deductions available as at March 31, 1998:

Canadian oil and gas property expense	$590,544
Canadian development expense	$78,013
Canadian exploration expense	$217,409
Undepreciated capital cost	$220,019

The Company also has unused deductions in respect of share issuance costs of $197,067.

8. Financial instruments

(a) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent that its long-term debt bears interest at a floating rate.

(b) Credit risk

The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable, due from related party and refundable deposits.

(c) Fair values

The fair value of all recognized financial instruments approximate their carrying amount.

9. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced prior to, on or subsequent to January 1, 2000. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved. Therefore, an entity's ability to conduct normal business operations may be impacted. This impact may range from significant system failure to minor errors.

10. Subsequent events

(a) Subsequent to March 31, 1998, the Company agreed to sell undeveloped oil and gas properties at Pine Creek, Alberta for proceeds of $750,000 cash. Had the sale occurred on March 31, 1998, the Company would have reflected a gain from the disposition of approximately $397,000 and reduced the net book value of property and equipment by $353,000.

(b) On July 31, 1998, the Company approved the extension of warrants to purchase 3,397,300 Class A shares at a price of $0.60 per share from August 8, 1998 to August 8, 1999. The extension is conditional on regulatory approval.

11. Comparative figures

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.

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The Alberta Stock Exchange
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